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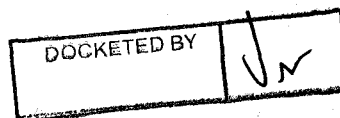
Arizona Corporation Commission  
**BEFORE THE ARIZONA CORPORATION COMMISSION**

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2000 SEP 19 P 3:43

CARL J. KUNASEK  
 Chairman  
 JIM IRVIN  
 Commissioner  
 WILLIAM A. MUNDELL  
 Commissioner



AZ CORP COMMISSION  
 DOCUMENT CONTROL

IN THE MATTER OF THE JOINT )  
 APPLICATION OF CITIZENS UTILITIES )  
 COMPANY; AGUA FRIA WATER DIVISION )  
 OF CITIZENS UTILITIES COMPANY; )  
 MOHAVE WATER DIVISION OF CITIZENS )  
 UTILITIES COMPANY; SUN CITY WATER )  
 COMPANY; SUN CITY SEWER COMPANY; )  
 SUN CITY WEST UTILITIES COMPANY; )  
 CITIZENS WATER SERVICES COMPANY OF )  
 ARIZONA; CITIZENS WATER RESOURCES )  
 COMPANY OF ARIZONA; HAVASU )  
 WATER COMPANY AND TUBAC VALLEY )  
 WATER COMPANY, INC., FOR APPROVAL )  
 OF THE TRANSFER OF THEIR WATER )  
 AND WASTEWATER UTILITY ASSETS )  
 AND THE TRANSFER OF THEIR CERTIFI- )  
 CATES OF PUBLIC CONVENIENCE AND )  
 NECESSITY TO ARIZONA-AMERICAN )  
 WATER COMPANY AND FOR CERTAIN )  
 RELATED APPROVALS. )

DOCKET NOS. W-01032A-00-0192  
 W-01032B-00-0192  
 W-01032C-00-0192  
 S-02276A-00-0192  
 WS-02334A-00-0192  
 WS-03454A-00-0192  
 WS-03455A-00-0192  
 W-02013A-00-0192  
 W-01595A-00-0192  
 W-01303A-00-0192

**STAFF'S NOTICE OF FILING  
 SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Surrebuttal Testimony of  
 Linda A. Jaress, Acting Chief of Accounting and Rates, Utilities Division, in the above-referenced  
 dockets.

RESPECTFULLY SUBMITTED this 19<sup>th</sup> day of September, 2000.

Teena Wolfe  
 Attorney, Legal Division  
 Arizona Corporation Commission  
 (602) 542-3402

1 Original and fifteen copies of  
2 the foregoing document filed  
3 this 19<sup>th</sup> day of September, 2000 with:

4 Docket Control  
5 Arizona Corporation Commission  
6 1200 West Washington  
7 Phoenix, Arizona 85007

8 Copy of the foregoing mailed  
9 this 19<sup>th</sup> day of September, 2000 to:

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By: 

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**SURREBUTTAL  
TESTIMONY OF**

**LINDA A. JARESS**

**DOCKET NOS. W-01032A-00-0192  
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**SEPTEMBER 19, 2000**

BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

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TUBAC VALLEY WATER COMPANY, INC. )  
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SURREBUTTAL

TESTIMONY

OF

LINDA A. JARESS

ACTING CHIEF, ACCOUNTING AND RATES

UTILITIES DIVISION

SEPTEMBER 19, 2000

1 Q. Are you the same Linda Jaress who provided direct testimony in this docket on August  
2 14, 2000?

3 A. Yes, I am.  
4

5 Q. What is the purpose of this testimony?

6 A. The purpose of this testimony is to address the issues raised in the direct testimony of Mr.  
7 David Stephenson in his direct testimony for Arizona-American Water Company ("Az-  
8 American", or "the Company").  
9

10 Q. Please address the main area of disagreement between Staff and the Company.

11 A. The main area of disagreement concerns my recommendation that the Commission  
12 impute the approximately \$85.6 million in contributions and advances being retained by  
13 Citizens Telecommunications, Inc. ("Citizens") as part of the proposed transaction. The  
14 impact of the retention of these liabilities by Citizens on Az-American's revenue  
15 requirement would be an increase of approximately \$12.8 million per year.  
16

17 Q. What was your recommendation regarding the retained advances and contributions?

18 A. I recommended that in future rate cases the Commission should impute the benefit of the  
19 balances of the Citizens Arizona water and wastewater advances and contributions to Az-  
20 American. I also recommended that the balances be reduced by 10.0 percent per year to  
21 approximate the process ordinarily performed if the advances and contributions were  
22 transferred to Az- American.  
23

24 Q. Why does Mr. Stephenson object to your proposed treatment of these liabilities?

25 A. Mr. Stephenson argues that in future rate cases, "The impact of eliminating Citizens'  
26 advances and contribution *may be* (emphasis added) offset by changes in operating  
27 expenses, capital costs and other operating efficiencies, as well as changed circumstances  
28 and regulatory developments."

1 Q. Do you agree that because the impact of Citizens' retention of these liabilities **may be**  
2 offset by other savings, the Commission should reject your recommendation?

3 A. No, I do not. First, the impact of the retention of these liabilities by Citizens is not in the  
4 public interest. The retention of the liabilities by Citizens only works to the detriment of  
5 the customers being transferred. It is part of an agreement between two utilities,  
6 negotiated with both of their interests in mind. The structure of the proposed transaction  
7 will benefit Citizens because the water and wastewater operations are worth more without  
8 the advance repayment obligations. Az-American will benefit because it will receive  
9 "instant ratebase" merely from the structure of the transaction. Taking Mr. Stephenson's  
10 argument to its logical conclusion, ratepayers could only benefit from the agreement  
11 when, or if, the cost savings exceed the impact of the additional rate base.

12  
13 Also, the impact of Citizens' retention of these liabilities will be a known and measurable  
14 amount at the time of closing. Cost savings, though expected, are achieved over an  
15 uncertain period of time. Even then, the computation of savings is an inexact exercise.  
16 To place the burden of the risk of the achievement of estimated savings upon the  
17 shoulders of the customers is unfair.

18  
19 Q. Mr. Stephenson has testified that the contracts Citizens has entered related to the  
20 advances have been in place for varying periods of time and have varying conditions. He  
21 also testified that the weighted average remaining life is 6.5 years and that if the  
22 Commission accepts your recommendation, the amortization period adopted should be  
23 6.5 years. Do you agree?

24 A. Staff will attempt to verify the information supporting the 6.5 year weighted average  
25 calculation the Company has made before the date of the hearing. If this time period is  
26 verified, I would recommend the use of that time period because it would be based upon  
27 the actual contracts.

28 ...

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

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